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November 1, 2007

PARTIES OF RECORD

Re: Case No. 2007-00034

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Robert Cowan at 502/564-3940.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell", written over a large, stylized circular scribble.

Beth O'Donnell
Executive Director

Attachment

Joe Bartley
Chairman
Meade County Water District
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Brandenburg, KY 40108

Doug Cornett
Chairman
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INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: File: Case No. 2007-00034

FROM: Jack Scott Lawless, Team Leader

DATE: November 1, 2007

RE: Case No. 2007-00034, In the Matter of: Application of Meade County Water District for (1) Approval of a Proposed Increase in Rates for Water Service, (2) Approval of an Increase in Non-Recurring Charges, and (3) Approval of a Revised Tariff

At the request of Meade County Water District ("Meade") an informal conference was held on October 30, 2007, to discuss the findings and recommendations of the Commission Staff's report issued on September 5, 2007. Those in attendance were:

Jack Scott Lawless, PSC	Joe Bartley, Meade
Eddie Beavers, PSC	Damon Talley, Meade
Robert Cowan, PSC	Carryn Lee, KRWA/Meade
Tiffany Bowman, PSC	David Spenard, Office of Attorney General
James Rice, PSC	

At the conference Meade disputed three adjustments made by Staff in its report:

1. Miscellaneous Service Revenues
2. Depreciation Expense
3. Purchased Water

Miscellaneous Service Revenues. In its Application, Meade proposed adjustments to and creation of certain non-recurring charges. However, Meade did not account for the increased revenues resulting from the proposed charges. Staff increased test year revenues by \$47,560 to account for these charges based upon the number of occurrences of each service during the test year. Where the number of occurrences was not documented by Meade, Staff relied upon estimates made by Meade personnel.

At the conference, Meade stated that Staff's adjustment overstates revenue. Meade's position is that due to the price elasticity of the services provided in return for the non-recurring charges, the number of test year occurrences would decrease during the period rates would be in effect as a result of the level of proposed charges. Meade requested that Staff revise its report to account for a reduction equal to approximately 60 percent of the test year occurrences. Meade provided no evidence supporting its position or justification for its requested reduction.

Staff explained that Meade presented no evidence to warrant or compel Staff to change its adjustment. Staff's adjustment was calculated based upon test year occurrences at rates recommended by Staff. Meade did not dispute the level of test year occurrences nor the rates recommended by Staff. Meade only stated that the number of occurrences would likely decrease as a result of the increased charges. Meade did not provide evidence to support its position. Absent such evidence Meade's requested 60 percent reduction in occurrences is arbitrary. Staff explained that all adjustments to test year operations must be known and measurable and that arbitrary adjustments are not allowed by the Commission.

Depreciation Expense. In its report Staff adjusted the useful lives assigned to transmission and distribution mains from 40 years to 50 years and cited National Association of Regulatory Utility Commissioners ("NARUC") guidelines as its basis. At the conference Meade expressed its displeasure with Staff's adjustment but made no specific objection or request for reconsideration on the matter. Meade did speculate that the original 40-year life was assigned to coincide with the term of the bonds used to finance their construction. The bonds' lives have nothing to do with the estimated service life of the mains. Meade presented no evidence contrary to the NARUC guidelines used by Staff. Staff noted that it used the short end of the NARUC recommended life range of 50 to 75 years since Meade's current rates fund this level of depreciation expense.

Purchased Water. Meade purchases water from the City of Brandenburg and Hardin County Water District No. 1 ("Hardin"). Test year purchased water expense was stated at \$379,290. In its application, Meade proposed to decrease this amount by \$7,623. In its report, Staff increased test year purchased water expense by \$6,724 to account for customer growth and two meter connections made to Hardin's distribution system subsequent to the test year.

At the conference, Meade requested that Staff give further consideration to purchased water expense. Meade pointed to the Commission's Final Order of August 2, 2007, in Case No. 2006-00410, wherein Hardin was granted authority to adjust its rates charged to Meade for wholesale service. The following details Hardin's approved rates as they apply to Meade:

	Prior to 06-410	Approved in 06-410
Volumetric Rate per Thousand	\$1.39	\$1.92
Meter Charge:		
2 Inch	37.60	40.16
3 Inch	70.50	75.30
6 Inch	235.00	251.00

All conference attendees agreed that further consideration of the test year purchased water expense was warranted pursuant to the Commission decision in Case No. 2006-00410. The adjustment discussed at the conference is detailed below in

Table I. The calculation in Table I accounts for the customer growth adjustment recommended by Staff in its report with appropriate consideration given to Hardin's rates approved in Case No. 2006-00410.

Table I				
	Test Year Gallons Purchased (1,000)	Rate	Charge	
Hardin County Water District No. 1				
Volumetric Rate	204,219	1.92	\$	392,100
Meter Charges				
2, 2 Inch at \$40.16/Month				964
1, 3 Inch at \$75.30/Month				904
2, 6 Inch at \$251/Month				6,024
City of Brandenburg	69,924	1.15		80,413
Total Gallons/as Stated in 2006 Annual Report	<u>274,143</u>			
Pro Forma Expense for Test Year Purchases				480,404
	Gallons (1,000) Staff Report Page 7	Rate		
Customer Growth/All Purchases from Hardin	4,189	1.92		8,042
Pro Forma Purchased Water				488,446
Less: Test Year				(379,290)
Increase			\$	<u>109,156</u>

Table II compares Meade's revenue requirement as originally requested by Meade in its application to that as originally recommended by Staff and adjusted for the purchased water adjustment presented in Table I.

Table II			
	Meade	Staff Including Table I Adjustment	Difference
Pro Forma Operating Expenses	\$ 1,461,060	\$1,559,496	\$ 98,436
Debt Service Requirement			
Annual Principal and Interest Payments, 3 year average 2007-2009			
1992 Rural Development Revenue Bonds		24,060	
2005 Kentucky Infrastructure Authority Loan #F03-05		26,404	
2001 Kentucky Rural Water Finance Corporation		46,385	
2004 Kentucky Infrastructure Authority Loan #C98-05		15,467	
1995 Kentucky Association of Counties Lease		64,254	
2002 Kentucky Association of Counties Lease		33,882	
Debt Principal per 2005 Audit, See Application, Exhibit 5, Page 2	98,786		
Interest, See Application, Exhibit 5, Page 2	119,083		
Total Principal and Interest	217,869	210,241	
Debt Coverage at 20 percent of Annual Principal and Interest	43,574	42,048	
Loan Servicing Fees		7,103	
Total Debt Service Requirement	261,443	259,392	(2,050)
Total Revenue Requirement = Operating Expenses + Debt Service	1,722,503	1,818,888	96,386
Less: Other Operating Revenue	-	(85,425)	(85,425)
Interest Income	(20,248)	(31,964)	(11,716)
Total Revenue Required from Rates for Service	1,702,255	1,701,500	(755)
Less: Normalized Present Rate Revenue	(1,637,689)	(1,614,610)	23,079
Required Revenue Increase/Decrease	\$ 64,566	\$ 86,890	\$ 22,324
Percentage Increase/Decrease	3.94%	5.38%	

Table II demonstrates that by incorporating the purchased water adjustment from Table I into Staff's original recommendations, there is no material difference in Staff's and Meade's calculated revenue requirement from rates for service. Had the purchased water adjustment detailed in Table I been accounted for by Staff in its report, Staff would have recommended that Meade's requested rates be accepted and approved by the Commission.

At the conference there was discussion regarding Meade re-noticing its customers if the adjustment to purchased water resulted in rates higher than those originally requested and noticed by Meade. In light of the calculations and discussions presented herein, no re-notice will be required as the resulting rates are not in excess of those originally requested and for which notice was given.

Based upon the discussions and agreements at the informal conference, Staff agreed that Meade's requested rates should be approved by the Commission.

The conference was adjourned.